

7/11/78

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 7/11/78;
Container 84

To See Complete Finding Aid:

http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Memo	Rick Hutcheson to Pres. Carter, w/attachments 7 pp., re: Correspondence w/Foreign head of state <i>opened per RAC NLC-126-13-19-1-6, 6/12/0</i>	7/11/78	A
Memo	Charles Schultze to Pres. Carter, w/attachments 7 pp., re: assesment of European Monetary System <i>Document 5/14/99</i>	7/11/78	A

FILE LOCATION

Carter Presidential Papers-Staff Offices, Office of the Staff Sec.-Presidential Handwriting File, 7/11/78 Box 94

RESTRICTION CODES

- (A) Closed by Executive Order 12356 governing access to national security information.
- (B) Closed by statute or by the agency which originated the document.
- (C) Closed in accordance with restrictions contained in the donor's deed of gift.

THE PRESIDENT'S SCHEDULE

Tuesday - July 11, 1978

7:15 Dr. Zbigniew Brzezinski - The Oval Office.

7:45 Mr. Frank Moore - The Oval Office.

8:00 Congressional Leaders Breakfast. (Mr. Frank
(60 min.) Moore) - First Floor Family Dining Room.

9:15 Meeting with Congressional Group/Intelligence.
(20 min.) (Mr. Frank Moore) - The Cabinet Room.

10:30 Mr. Jody Powell - The Oval Office.

11:00 Senator Dick Clark. (Mr. Frank Moore) - Oval Office.
(15 min.)

11:30 Vice President Walter F. Mondale, Admiral Stansfield
(30 min.) Turner, Dr. Zbigniew Brzezinski, and Mr. Hamilton
Jordan - The Oval Office.

1:00 Photographs with Democratic Congressional Candidates.
(10 min.) (Mr. Frank Moore) - The Oval Office.

~~CONFIDENTIAL~~

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

C
/

July 11, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze ^{CLS}

SUBJECT: Assessment of Proposals for a New European
Monetary System

You asked if I would prepare an assessment of the new European Monetary System. We labor under the disadvantage that the outline proposed at Bremen was very broad and general. Given that limitation, this memorandum (i) discusses the background for the proposal; (ii) outlines it; (iii) evaluates the likely impact of alternative formulations of the proposal on the United States' and world economy; and (iv) states my view on what our reaction should be. Before the Summit, you will receive an interagency memorandum with further discussion and agreed-upon talking points.

I. Background for the New Proposal

The new European Monetary System (EMS) proposals must be seen in light of both a long history of the functioning and subsequent breakdown of the Bretton Woods system, and the current frustrations with economic policy in Europe today. A short history of postwar international monetary arrangements is given in an Appendix.

Why are the European governments proposing EMS now? First, most high officials in Europe do not like floating exchange rates. Second, Europeans believe that U.S. "benign neglect" of exchange rates (our view that market-determined, floating rates are appropriate) reflects an enduring lack of concern about exchange market instability. They believe, therefore, that measures to achieve greater exchange rate stability must be taken without active U.S. participation.

~~CONFIDENTIAL~~

Electrostatic Copy Made
for Preservation Purposes

DECLASSIFIED
CEA Guidelines
8/6/79
BY J NARS, DATE 5/2/99

COPY CARTER LIBRARY

~~CONFIDENTIAL~~

-2-

Most important, I suspect that this is a brilliant ploy for deflecting criticism from the failure of European economic policy. The central need in Europe and most of the world today, outside the U.S., is to restore economic recovery. By taking the initiative on a dramatic and bold new action and focusing everyone's attention on EMS, Schmidt may well remove the sting of German failure to promote adequate economic growth. It should be emphasized, however, that exchange rate instability cannot be reasonably counted as the central cause of economic weakness in Europe. The cause is basically failure to take appropriate monetary and fiscal policies.

Schmidt does genuinely believe that exchange rate instability has been a significant drag on economic growth, especially in Germany. In fact, there is little evidence to date that exchange rate appreciation has markedly dampened German exports (and therefore growth). Exchange rate instability is a symptom of fundamental disparities in economic conditions among countries. Moreover, attempts to impose exchange rate stability on countries with widely different inflation and external positions could well do more harm than good.

What are current views on fixed vs. floating rates?

- o There is very little support in the United States for moving back to a fixed rate regime. Such a move would put a straitjacket on domestic economic policies. As in the late 1960s, we would have to weigh the balance-of-payments consequences of every major government transaction. (As Director of the Bureau of the Budget in the mid-1960s, I literally had two sets of books: one for dollars spent in the U.S., and another for dollars spent abroad.) Ultimately, we might be forced into raising unemployment to cure a trade deficit.
- o The view from Europe is different. Countries that are smaller and more open than the United States, and have close economic ties with one another, have sound reasons for pursuing economic integration, including monetary unification. About one-fourth of the E.C. GNP moves in world trade, as compared with 7 percent of U.S. GNP. Moreover, half of E.C. trade is within the E.C. Unnecessary exchange rate fluctuations are disruptive of trade and investment. By joining together, these countries hope to reduce unnecessary fluctuations. (But inevitably this must involve harmonizing domestic policies as well as providing for monetary union.)

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

-3-

II. Proposals for a European Monetary System (EMS)

The heads of government in Bremen decided that competent E.C. groups would study the German-French "scheme" with an eye to adopting an EMS in December. It should be emphasized that no agreement was reached in Bremen on the substantive scheme. The main features of the German-French scheme are:

- Setting limits on movements of E.C. currencies relative to each other;
- The establishment of a pool of reserves, consisting of dollars, E.C. currencies, and gold to support these rates;
- There would be "conditionality" on borrowing of pooled reserves, i.e., countries in deficit would have to institute policies to eliminate their deficits. (Note: The Bremen scheme states that responsibilities apply to "deficit and surplus countries alike." I am very skeptical whether surplus countries will be subject to effective pressures for adjustment.)
- The adoption of a European Currency Unit (ECU) whose value would be based on a basket of EC currencies as "the center of the system;"
- The ultimate establishment of a European Monetary Fund to hold the pooled reserves and oversee the system.

These arrangements would be phased in over two or more years beginning in early 1979. At least during the transitional period they would be superimposed on the existing Snake arrangements. Currencies not now in the Snake might initially have leeway for greater rate fluctuations than now exist among the Snake currencies, but it is envisioned that when fully implemented the new system would be at least as restrictive as the Snake.

As you know, the U.K. and Italy have serious reservations about such a plan, and did not endorse it at Bremen. Moreover, the features are all subject to change and negotiation.

III. Analysis of the Proposals

As the exact details will be unclear for weeks or months, we can only pose a series of potential problems that the EMS may hold for the U.S. and world economy.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

-4-

1. Will EMS restrict the ability of the dollar to reflect underlying market forces? If the EMS only attempts to reduce fluctuations among European currencies, extreme fluctuations of the dollar against individual European currencies may be reduced. (For example, the dollar might depreciate less against the German mark and more against the French franc than it would have otherwise.) On average, the depreciation against European currencies might well be unaffected. There are some hints in the Bremen statement and from other reports, however, that the new system might be used to manage the value of the dollar against European currencies. If these operations went beyond efforts to counter disorderly markets, they could deprive us of needed exchange rate flexibility.

Comment. We must be assured unequivocally that the dollar will be free to adjust when fundamental economic conditions warrant. It must not be pegged.

2. Will the proposals destabilize the dollar? The discussion and development of these new proposals is itself likely to create nervousness and uncertainties in exchange markets -- indeed, some has already occurred. This probably will be temporary and modest. Moreover, initially speculators will test the new set of intra-European exchange rates rather than focus on European/U.S. rates.

If the new system uses dollars to intervene when it is buying or selling currencies of its members, and if the transactions are not balanced between buying and selling, then the value of the dollar would be affected.

A more fundamental question arises as to whether the development of more stable rate relationships within Europe, and perhaps ultimately the emergence of a European currency, will make European currencies relatively more attractive compared to the dollar as international money. This may occur, but it is unlikely to occur overnight. Moreover, the dollar as the key currency is likely to face growing competition from the DM and the yen in any case.

Comment. Although technical provisions need to be worked out, it is clear that the dollar may be subject to unnecessary pressures if the details are not carefully drafted. For example, the intra-European intervention arrangements should be generally neutral with respect to the dollar. Our technical people must be kept abreast of the details as they develop.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

-5-

3. What effect will the new system have on growth in Europe? There will be a number of offsetting forces at work within the new system, that will affect economic growth.

(i) Because countries in payments deficits will not be able to depreciate their currencies, they may have to adopt more restrictive internal policies to deal with their deficits. ✓

(ii) The provision of additional resources for loan to deficit countries will, on the other hand, help ease the pressure on them to take such restrictive policies. (iii)

But, finally, the fact that the loans will be conditional on adopting "stabilization policies," and the lack of any equivalent leverage on surplus countries, may create a contractionary bias in the system. This is the source of much of the Italian and British reluctance to participate. ✓

Implementing the system at a time when large and stubborn differences in inflation rates exist among participating countries increases the likelihood that even with fairly large financing resources some countries will be forced to take sharply restrictive action or abandon the system.

Any overall contractionary bias in the system could be reduced (i) by allowing periodic adjustments in intra-European exchange rates; or (ii) imposing and enforcing symmetrical responsibilities on both surplus and deficit countries to adjust internal policies. Little has been said so far concerning the responsibilities of countries in surplus. ✓

4. Will a New European Monetary System be viable?

I have some doubts about whether EMS will succeed. A new system of fixed rates will be subjected to severe strains almost immediately:

- Significant current account imbalances exist within Europe.
- Large differentials in inflation rates will lead inexorably to the overvaluation of currencies where inflation is high and undervaluation of currencies where inflation is low.
- More fundamentally, a fixed exchange rate regime in Europe requires institutions to assure that Europe has a concerted fiscal and monetary policy; and that harmonization of inflation rates will occur. The EMS proposal puts the cart of exchange rate stability before the horse of economic harmonization.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

-6-

Past experience with maintaining fixed rates under such conditions suggests that a system of fixed rates is not likely to last. Britain, France, and Italy have been in the Snake already, and have dropped out -- France twice. As the respected German Handelsblatt wrote yesterday, "An old worn out dress has been ironed again."

IV. Recommended U.S. Reactions

1. At this stage, the Bremen agreement is very general; its implications for the U.S. and the world economy cannot be assessed until its further details are worked out.

2. Although there are some political disadvantages for the United States, we should not take a negative attitude on general principle, and indeed should support the broad objectives of European economic integrations, including monetary cooperation.

3. When this subject arises in meetings with your Summit counterparts, especially Schmidt, Giscard, and Callaghan, you should indicate: (i) we have historically supported moves toward European integration; (ii) we cannot render a final judgment on EMS until the specific features have been worked out; and (iii) we do have a major interest in seeing that certain broad principles are incorporated and certain dangers avoided.

- A. We have an obvious interest in what the system implies for the relationship of the dollar to the basket of European currencies in the system. The system should not be designed or operated in ways that reduce the flexibility of the dollar.
- B. Given the current depressed state of the European economy, we think that over the next several years it will be especially important that the system not exert a contractionary force.
- C. The specific technical choices made in the design of the system will inevitably have important repercussions for the dollar and for U.S. economic interests. For that reason, you should urge that the United States be kept closely informed at all stages of the technical discussions, so that we can make our views known before arrangements are frozen.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

-7-

4. Finally, it is critical that discussion of the Monetary System not distract us from recognizing the central requirement in Europe today: a concerted policy to expand the European economy especially in the strong countries like Germany, Switzerland, and Benelux. It would be a tragedy if EMS removed attention from the necessary expansionary measures which must be taken.

~~CONFIDENTIAL~~

THE WHITE HOUSE
WASHINGTON

Violations of secrecy increasing
Executive & legislative

Inadvertent, deliberate, ego

Post-Times: Hussein Top & Europe
+ 10

UPI Kaylor's - Cuban mil advs. ~~Time~~/Hoy

Times - CIA - Comm → Sadat

SF Chron - NSA monitor SU intercepts

Cleveland PI Rep. - NSA - Korea code
Caputo

Biden - NSA activities in Panama

= Cuban support in Shaba

= Damage intel capability
Often distorted, misleading

= Reduce "th of people who know"

Committees, ~~members~~, staff,
methods & sources

assess/emphasize seriousness

THE WHITE HOUSE
WASHINGTON

10:30 am 7-11-78

Strauss for Geneva

Fair pkg on MTN
Little on agriculture
Mkt access - tobacco,
beef, citrus

Leadership breakfast 7/11/78

THE WHITE HOUSE
WASHINGTON

> Civil Service reform - Elections & House quorum
 > Energy - Dole amend
 Byrd trip
 CRBR - Flowers/Teague
 > Tax reform
 Bonn summit
 Frank/Fritz → Hill (37 days)
 For Policy mfgs
 Hosp Cost Cont
 Turkey
 Airline dereg
 HH
 Labor law reform
 NYC
 Foreign aid

THE WHITE HOUSE

WASHINGTON

July 11, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: PETER BOURNE ^{P.B.}

SUBJECT: DRUG ABUSE IN EUROPE

As you requested of me when we met with Congressmen Wolff and English, I have prepared a summary of the drug problem in Europe. The specific items which you asked me to provide for you were:

1. A general overview. (Western Europe is on the threshold of a major drug abuse epidemic).
2. The military drug abuse program. (U.S. Army Europe overdose rates increased by 50% last year and currently three times the average overdose rate for U.S. cities.)
3. The Federal Republic of Germany. (Overdose deaths have increased 400% since 1973 with 387 deaths in 1977).
4. United Kingdom. (The British have not contributed to the U.N. Fund for Drug Abuse Control for the past two years and have steadfastly ignored significant drug problems.)
5. Italy. (Is an important transshipment port for S.E. Asian heroin and there is a possibility that some terrorist groups are financing themselves with narcotic trade.)
6. Scandinavia (Denmark, Norway, Sweden.) (This region has shown leadership in funding multilateral narcotics efforts.)
7. France. (Is only beginning to address the narcotics problem and needs encouragement on a number of fronts.)
8. Japan. (Criminal elements in Japan and the U.S. are joining forces in an organized fashion.)

The biggest difficulty has been a failure at the top in the European countries to recognize the magnitude of their problem, or to provide any leadership in dealing with it. Unless they do, especially in Germany, our ability to do anything about heroin addiction among U.S. military will be minimal. It is my impression that none of the other leaders you will be meeting with in Bonn have any familiarity with the drug issue, and the briefing material will allow you to be much more familiar with what is happening in their countries than they are.

I have prepared a detailed briefing on each country which is being included in the trip book.

7/11/78

THE WHITE HOUSE
WASHINGTON

10:30 am 7/11/78

MLK

= Bishop College

71 private black colleges
" white " ?

= Grandson Navy → army
serve in Atlanta

Law & Psychiatry
Sen. Nunn working on it.

Eddie Clifford Beale

THE WHITE HOUSE
WASHINGTON

July 11, 1978

Frank Moore

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

CALL TO SEN. CHILES

	FOR STAFFING
	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION -

ACTION
FYI

	ADMIN CONFID
	CONFIDENTIAL
	SECRET
	EYES ONLY

<input type="checkbox"/>	VICE PRESIDENT
<input type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LIPSHUTZ
<input checked="" type="checkbox"/>	MOORE
<input type="checkbox"/>	POWELL
<input type="checkbox"/>	WATSON
<input type="checkbox"/>	WEXLER
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	MCINTYRE
<input type="checkbox"/>	SCHULTZE

	ARAGON
	BOURNE
	BUTLER
	H. CARTER
	CLOUGH
	COSTANZA
	CRUIKSHANK
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HUTCHESON
	JAGODA
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	PRESS
	RAFSHOON
	SCHNEIDERS
	VOORDE
	WARREN
	WISE

	ADAMS
	ANDRUS
	BELL
	BERGLAND
	BLUMENTHAL
	BROWN
	CALIFANO
	HARRIS
	KREPS
	MARSHALL
	SCHLESINGER
	STRAUSS
	VANCE

Frank
Dove
J

THE WHITE HOUSE
WASHINGTON

July 11, 1978

MEMORANDUM FOR THE PRESIDENT

FROM:

FRANK MOORE *F.M.*

SUBJECT:

REQUEST TO CALL SEN. LAWTON CHILES (D-FLA)

I suggest that you call Senator Chiles this morning to discuss the Turkey arms embargo and the Dole amendment to the Treasury appropriations bill.

*Assessing -
Thinks logic
on my
side*

Senator Chiles was at the foreign policy briefing last night, so there is little need to go over the arguments in favor of lifting the embargo. Therefore, you will probably want to simply ask him for a commitment to support our position. As you know, Senator Chiles voted against tabling the Dole amendment on the Senate floor (we lost 39 to 49). The Senate conferees voted against us on the floor 4 to 3 (Chiles, DeConcini, Young and Weicker). Senator Chiles is the Subcommittee Chairman, and he will lead the Senate conferees. This makes his support for our position pivotal. His interest parochial--Florida Power and Light--heavily relies on oil; he has opposed COET as a new tax. The conferees will not meet until after the Summit, but you may want to emphasize to the Senator the need to reach an informal understanding with the House and Senate before going to Bonn. I suggest that you explain in some detail the international implications of the Dole amendment, the embarrassing position it puts you in, but your firm resolve not to let other leaders at the Summit push you around. A presentation similar to the one you gave this morning at the Leadership breakfast would be appropriate.

*all of
the oil
imported*

Dan Tate of my staff will be meeting with Chiles tomorrow and can follow up on your conversation if necessary.

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

11 July 1978

TO: THE PRESIDENT
FROM: RICK HUTCHESON *RH*
SUBJECT: Memos Not Submitted

1. CHARLIE SCHULTZE MEMO. Changes in this year's consumer price index have been heavily influenced by the sharp rise in mortgage financing costs. Between December and May, mortgage financing costs rose at an annual rate of 16.6 percent. This sharp increase is due not only to the rise in interest rates, but to the rise in home prices as well. In fact, rising home prices accounted for three-fifths, and higher interest rates for two-fifths of the increase in mortgage financing costs.
2. PETER BOURNE MEMO re his conversations with Prime Minister Manley during a recent trip to Jamaica. Key points:
 - Peter discussed the current problems with Congress re development assistance, and made the point that inflammatory rhetoric about "imperialism" makes it more difficult for you to develop public support for US aid to developing nations.
 - "I think at one level (Manley) is sincere in really wanting to do something for the Third World and in his regard for you, yet at the same time is untrustworthy in his willingness to exploit North-South dialogue and sell out whatever good will he has with the US if he suddenly decided it was to his personal advantage."

NSC has a copy of the memo.

Electrostatic Copy Made
for Preservation Purposes

ID 783503

THE WHITE HOUSE

WASHINGTON

DATE: 10 JUL 78

FOR ACTION:

INFO ONLY: ZBIG BRZEZINSKI

SUBJECT: BOURNE MEMO RE JAMAICA -- ~~CONFIDENTIAL~~

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

+++++

ACTION REQUESTED:

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

DECLASSIFIED
Per, Rac Project
ESDN: NLC-126-15-197-6
BY K5 NARA DATE 6/10/13

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
<input checked="" type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION -

*prob for
summary*

ACTION
FYI

	ADMIN CONFID
<input checked="" type="checkbox"/>	CONFIDENTIAL
	SECRET
	EYES ONLY

	VICE PRESIDENT
	EIZENSTAT
	JORDAN
	KRAFT
	LIPSHUTZ
	MOORE
	POWELL
	WATSON
	WEXLER
<input checked="" type="checkbox"/>	BRZEZINSKI
	MCINTYRE
	SCHULTZE

	ARAGON
	BOURNE
	BUTLER
	H. CARTER
	CLOUGH
	COSTANZA
	CRUIKSHANK
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HUTCHESON
	JAGODA
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	PRESS
	RAFSHOON
	SCHNEIDERS
	VOORDE
	WARREN
	WISE

	ADAMS
	ANDRUS
	BELL
	BERGLAND
	BLUMENTHAL
	BROWN
	CALIFANO
	HARRIS
	KREPS
	MARSHALL
	SCHLESINGER
	STRAUSS
	VANCE

THE WHITE HOUSE

WASHINGTON

July 8, 1978

~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT

FROM: PETER BOURNE ^{P.B.}

SUBJECT: JAMAICA

I went to Jamaica earlier this week at the invitation of Prime Minister Michael Manley to speak at events on the anniversary of the death of his father Norman Manley.

While I was there I spent time with Manley on two separate occasions. Among the issues we discussed were:

1. At the suggestion of the NSC and State Department I went to some length to talk to him about the current problems with the Congress in regard to development assistance and the sentiment in the country as a whole as reflected by Proposition 13 and other events. He told me convincingly that he felt you were really sincere in your desire to understand and be responsive to the needs of the G. 77. We then discussed, and I think he does appreciate, the political problems you face in doing many of the things you might want to for developing nations, including Jamaica.

3. He said he was concerned that whenever he critized the multinational corporations, or certain governmental actions by the United States, that the American people tended to take it as a global indictment of our country. I told him that I thought much of this was his own fault in terms of the looseness of the rhetoric he used. If he used words like "imperialism" he invited a knee jerk negative reaction in the U.S. While I was willing to acknowledge that we were not perfect in our dealings with the G. 77, if he felt he had to be critical he should try to make it as specific and non-inflammatory as possible, otherwise he would be undermining your ability to get greater public support for United States aid efforts. We talked about what he gained with his own constituency in Jamaica and the Third World by such rhetoric and I told him he should carefully weigh whatever benefits he thought he might be getting against what I could guarantee would be mounting animosity in the United States.

~~CONFIDENTIAL~~

DECLASSIFIED

Per: Rac Project

ESDN: NLC-136-13-19-1-6

BY 45 NARA DATE 6/10/13

~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT
FROM: PETER BOURNE
SUBJECT: JAMAICA

4. He asked me if we could help him in his efforts to launch a new literacy program in Jamaica. This is coincidentally a general area that I had been working on in recent weeks, so I believe we can help him. We talked about Jamaica's terrible economic problems and he said he was waiting eagerly for Dick Cooper's visit this weekend.

5. He was very laudatory about the Peace Corps and had only good things to say about it. Mary accompanied me on the trip (not at U.S. Government expense) and talked with Jamaican officials about the possibility of increasing the number of volunteers.

I found Manley a very interesting person, who despite his political problems is head and shoulders above anyone else I met in Jamaica. I think at one level he is sincere in really wanting to do something for the Third World and in his regard for you, yet at the same time is untrustworthy in his willingness to exploit the North South dialogue and sell out whatever good will he has with the United States if he suddenly decided it was to his personal advantage. He clearly is aiming for a big role on the world scene and I think would like to be for the entire developing world what his father was to Jamaica at the time of independence. It is just a question of what he is willing to do to achieve that goal.

PGB:ss

~~CONFIDENTIAL~~

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 10, 1978

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze *CLS*
Subject: Effect of Mortgage Financing Costs on the
Consumer Price Index

I have mentioned to you on several occasions that changes in the consumer price index this year have been heavily influenced by the sharp rise in mortgage financing costs. We have been digging into the detailed calculations that the Bureau of Labor Statistics (BLS) makes in computing the change in the CPI in order to understand better how mortgage financing costs are treated in the index. I thought you might be interested in the findings.

BLS tries to measure the change in the monthly interest costs incurred by buyers of homes. This cost, however, can change for one of two reasons -- first, because mortgage interest rates change or second, because the prices of houses change. This second element is included in the BLS measure of "mortgage financing costs" because a rise in home prices -- assuming a constant percentage downpayment -- would require a home buyer to increase the size of his loan. His monthly payment would therefore go up even if mortgage interest rates were unchanged.

This year, home prices have risen sharply and mortgage interest rates have also increased. The recent sharp increase in mortgage financing costs therefore cannot be ascribed simply to the rise in interest rates, but to the combined impact of both elements -- interest rates and home prices. Between December and May, "mortgage financing costs" rose at an annual rate of 16.6 percent. Rising home prices accounted for three-fifths and higher interest rates for two-fifths of this increase.

ID 783569

THE WHITE HOUSE

WASHINGTON

DATE: 11 JUL 78

FOR ACTION:

INFO ONLY: THE VICE PRESIDENT

STU EIZENSTAT

JACK WATSON

SUBJECT: SCHULTZE MEMO RE EFFECT OF MORTGAGE FINANCING COSTS
ON CONSUMER PRICE INDEX

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

+++++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

1:00 PM

THE WHITE HOUSE

WASHINGTON

July 10, 1978

PHOTO OPPORTUNITY SESSION WITH SEVERAL CONGRESSIONAL CANDIDATES

Tuesday, July 11, 1978
1:00 p.m. (10 minutes)
The Oval Office

FROM: FRANK MOORE *F.M./BR*

I) PURPOSE

Photos with the President for use in campaign materials

II) BACKGROUND, PARTICIPANTS AND PRESS PLAN

- A. Background and participants: You will meet with and have photos taken with eight Congressional candidates who are in town meeting with various individuals and groups to further their campaigns.

They are:

Vic Fazio: Fazio is a 35 year-old State Representative and Democratic candidate for the seat being vacated by Robert Leggett's retirement from the House (4-California). Fazio won a 4-way June 6 primary with 57.0% of the vote and faces Rex Hine, a former aide to Governor Ronald Reagan. This seat is regarded as safely Democratic (Carter 56%--Ford 44%) and Fazio is clearly favored to take this seat. Fazio is well known as he represents two of the District's four major counties in the State Assembly. He also has the clear backing of Leggett and Congressman John Moss.

Julian Dixon: Dixon is the Democratic candidate for the seat being vacated by Yvonne Braithwaite Burke (28-California). He faces no Republican opposition in the general election and will be the Congressman from this District in the 96th Congress. Dixon is 45, black, a California State Assemblyman and Chairman of the Democratic Caucus in the Assembly which is that body's third most powerful position. Dixon won the June 6 primary with 48% of the vote. He ran a very sophisticated and expensive \$110,000 campaign and had the backing of most of the state's leading Democrats including Governor Brown and Assembly Majority Leader Howard Berman, one of the most powerful liberal political forces in the state of California. This Los Angeles District is 40%

black and decidedly Democratic.

Doug Brandon: Brandon is the Democratic candidate running in the seat vacated by Congressman Jim Guy Tucker (2-Arkansas), who was defeated in the June 13 Senate runoff by Governor David Pryor. Brandon is a well known State Representative (he owns a chain of furniture stores in Little Rock which bear his name). He defeated former State Representative, Cecil Alexander, in the June 13 runoff, 52%-47%. The general election battle against Ed Bethune will be the toughest Congressional race in the state. The Republican candidate will receive strong national party backing. This is the seat held by Wilbur Mills for 38 years. Brandon has served 14 years in the State Legislature, interrupted by an unsuccessful run for Lieutenant Governor in 1974. He is known as an activist moderate-liberal legislator. He served as Chairman of the Arkansas House Representatives' Joint Budget Committee, Revenue and Taxation Committee and the Legislative Council, which serves as the State's legislative body when the General Assembly is not in session. He is very active in the area of educational legislation and authored the State's first Code of Ethics for public officials.

Gene Atkinson: Atkinson is the candidate for the seat being vacated by Republican Gary Myers (25-Pennsylvania). Atkinson is currently a Beaver County, Pa. Commissioner, a post he has held for the past seven years. Atkinson ran for this seat against the popular incumbent Myers in 1976 and lost 57%-43%. Atkinson this time will face Tim Shaffer, the Butler County Solicitor. This is a Democratic District and one of our best shots in the east at picking up a Republican held seat. Atkinson is favored but will have to work hard. He has a good electoral base as Beaver County is the largest county in the District. His special concerns are bridge and road repair and steel. He will meet with Secretary Adams in the morning. Atkinson is the only Congressional candidate in the state who has formed a public alliance with gubernatorial candidate, Pete Flaherty. Given Flaherty's popularity in the western part of the state (this district is just north of Pittsburgh), this should be a good boost to Atkinson's campaign.

Pat Williams: Williams, a former State Representative, won the June 6 six-way primary with 41% of the vote to become the Democratic candidate for the 1st District seat being vacated by Congressman Max Baucus, who is running for the Senate. This is a marginal district which has changed parties several times since 1960. Williams ran against Baucus in the 1974 Democratic primary and at one time was a staffer for John Melcher when he represented the 2nd District of Montana. Williams has good labor support and has shown ability to raise money. He is a favorite at this time.

Lew Puller: Puller is a double amputee Vietnam veteran who will challenge Congressman Paul Tribble in the 1st District of Virginia. Puller's father was "Chesty Puller," a marine general and one of the most decorated. Tribble won this seat in 1976 by 1600 votes taking advantage of the retirement of long time incumbent, Thomas Downing. The seat had been Democratic all this century. Puller worked for the Robb organization in this District.

Nelson Wolff: Wolff is the Democratic candidate in the seat being vacated by Bob Krueger in the 21st District of Texas, a district which is larger in land area than the state of Pennsylvania. Wolff won a five-way primary on May 6 with 50.5% of the vote, escaping a runoff by 1/2 of one per cent. His Republican opponent in November will be Tom Loeffler, a lawyer and rancher, former aide to Senator John Tower, and a member of the Congressional Liaison staff in the Ford White House. Wolff, a 37 year-old former State Senator from Leon Springs is, like Loeffler, a lawyer and a rancher. He ran for this seat four years ago, led in the primary, then lost in a runoff to Bob Krueger. At that time he did well in Bexar County, where San Antonio is located, but poorly in the rural sparsely populated western counties. This year, he has been visiting the small outlying western towns to bolster his support there. The Republicans have high hopes of taking the seat; it has become increasingly conservative in recent years and the Administration's policies on agriculture and energy are unpopular. This is one of the three most marginal House races in Texas.

Mike Freeman: Freeman will be the Democratic candidate in the 3rd District of Minnesota, the Minneapolis suburbs which are now represented by Bill Frenzel. (The Minnesota primary is not until September 12, but Freeman has the DFL endorsement and no opposition, and is thus assured the Democratic candidacy.) Freeman, the son of former Governor and Agriculture Secretary Orville Freeman, is a Richfield attorney. Although he is an energetic campaigner, he would have stood a better chance in this marginal district if Frenzel had left to run for the Senate. It will be a close race, but Frenzel has strong support in the business community and is expected to retain the seat.

B. Participants: eight candidates

C. Press Plan: White House photographer; two candidates will have their own photographers also.

III) TALKING POINTS

A. Usual courtesies

1:00 PM

THE WHITE HOUSE

WASHINGTON

PHOTO OPPORTUNITY SESSION -- ADDENDUM

Tuesday, July 11, 1978
1:00 p.m. (10 minutes)
The Oval Office

FROM: FRANK MOORE *Fm/pd*

Norma Bork: Norma Bork is the Democratic candidate in the 2nd District of California which is presently represented by Don Clausen (R). The party breakdown in the 2nd District is 58% Democratic and 34% Republican. Bork won the strongest Democratic primary race in the 2nd C.D. since 1964 -- and the strongest for any woman in its history. Bork, who is 48, won the primary with 43% -- part of her victory due to the early start she made. She began in February 1977 and campaigned fully for 16 months. Bork is backed by the major women's organizations, has solid Democratic support. The 2nd C.D. runs from Marin County to the Oregon border which is basically a 300-mile coastal District. This District went for Carter over Ford by a small margin in 1976. This will be a tough campaign, but she has a strong organization and is in the process of strengthening her fundraising efforts. Bork met with the First Lady yesterday.

THE WHITE HOUSE

WASHINGTON
July 3, 1978

C
/

MEMORANDUM FOR THE PRESIDENT

FROM: JIM FALLOWS *JF*

SUBJECT: Germany Trip

Here is the first installment of your statements for Germany. We are sending today drafts of:

- 1) the departure statement at Andrews (~~or the South Lawn~~);
- 2) notes for your toast at the informal working lunch in Bonn;
- 3) the toast at the state dinner in Bonn (this we are sending as a text, rather than talking points, because it is the main policy statement of the first few days of your visit. There is no arrival statement as such, as this takes its place); *still clearing with Pentagon -- will be there on evening shipment;
- 4) your remarks to the troops at Brigade 76;
- 5) a departure statement (which you may or may not want to use, or which may be the starting point for your closing statement at the end of the Economic Summit).

There are four other statements we are not sending today, but will at the end of the week. They are:

- 1) Bonn Town Hall
- 2) Frankfurt Town Hall
- 3) Berlin Airlift Memorial
- 4) Berlin Town Meeting opening statement

The five we are sending today are the more policy-oriented statements; the four we are delaying are those we are trying to make as inspirational, eloquent, and memorable as possible. The reason for delay is that Griffin Smith of my staff is on the pre-advance trip to Germany right now. He is trying to get as many local references as he can and find the grace notes that will make the speeches go over well. He will be back Thursday night; we'll send the drafts of these remaining four to you on Saturday.

It's very possible that Griffin will find out anecdotes and shadings that would affect the drafts we're sending now too; if so, we'll send you a list of suggested changes or additions then.

Jerry Rafshoon has seen these drafts; so have the NSC staff members we've worked with on this trip.

THE WHITE HOUSE
WASHINGTON

7-11-78

To C. Schultze

Expedite analysis of
France - G.B. Italy
joining snake

JC

8:00 AM

THE WHITE HOUSE

WASHINGTON

July 10, 1978

CONGRESSIONAL LEADERSHIP BREAKFAST

Tuesday, July 11, 1978

8:00 a.m.

Family Dining Room

From: Frank Moore *F.M./pd*

I. PRESS PLAN

White House Photo Only

II. PARTICIPANTS

See attached list

III. AGENDA

1. Civil Service Reform. The timing on this is now critical. You should ask Senator Byrd what his plans are for scheduling in the Senate. The House Committee is in its final week of mark-up. You should urge the Speaker to put additional pressure on the committee. The Speaker will be prepared for you to ask him to set-up task forces similar to those set-up on energy on some of the controversial issues surrounding civil service reform, i.e. veterans preference.

We would like immediate action on civil service reform but it is essential by the first week of August. At that time, the AFGE will hold elections at their annual meeting. Ken Blaylock who has supported our position particularly on collective bargaining is being opposed because of his support for our position. If by the time of these elections, we do not have a bill containing our collective bargaining provisions, opposition to Blaylock will intensify and he may lose the election. Should Blaylock not be reelected, we will be faced with dealing with a labor front united in their opposition to our reform measures.

2. Energy and the Bonn Summit. I have attached some information prepared by Henry Owen. The Speaker has not yet appointed the conferees to the Treasury Appropriations Conference and is waiting for a signal from you.

3. Greece/Turkey. In view of the fact that you met today with Senator Byrd, will be meeting with the Speaker, Wright and Rostenkowski on Wednesday, and will have a third breakfast with House members on Wednesday, I believe you should make ^{any} a brief statement asking for support of your program.
4. Clinch River Breeder. Attached are brief talking points.
5. Senator Byrd. Senator Byrd will be prepared to give a brief report on his recent trip.
6. Tax reform. I believe you should again emphasize the compelling need to get on with tax reform. This would be a good opportunity for you to indicate your concern that there are few days left before the recess in which to accomplish a great many things.

P
A
R
T
I
C
I
P
A
N
T
S

PARTICIPANTS

The Vice President

Majority Leader Byrd
Senator Cranston

Speaker O'Neill
Cong. Wright
Cong. Brademas
Cong. Rostenkowski
Cong. Foley
Cong. Chisholm

Zbig Brzezinski
Jim McIntyre
Jerry Rafshoon
Jody Powell
Scotty Campbell
Stu Eizenstat
John White
Frank Moore
Dan Tate
Bob Thomson
Bill Cable
Terry Straub
Bill Smith

E
N
E
R
G
Y
/
S
U
M
M
I
T

Suggested Remarks to Congressional Leadership on Bonn Summit

I am going to Bonn to help build a healthier world economy and achieve concrete gains for American workers and farmers. This will not be a decision-making meeting, but the heads of government will be talking about the long-term direction of their policies.

Germany and Japan will be talking about whether to enhance their growth rates. Britain and France will be talking about whether to reduce their trade barriers. Progress to these ends would mean less US inflation, more opportunities for our exporters, a lower US external deficit, and a stronger dollar.

I will be talking about what the US can do to limit oil imports and curtail inflation. This too, will reduce our deficit and strengthen the dollar.

Each of the heads of government faces domestic political problems in trying to move ahead on these problems. It may be somewhat easier to overcome these obstacles if all move together in the year that follows the Summit. This will be the test; what actually happens before the next Summit, not what is said in the communiqué.

The US role will be important. I can only play this role if I have your support -- in passing energy legislation and in avoiding such restrictions as the Dole amendment.

I am not going to Bonn to make secret deals. But I do want to tell the other heads of government where US policy is headed. That policy is made cooperatively by the executive and legislative branches. I hope that I will be speaking for both these branches when I say that the United States Government is determined to reduce oil imports and curtail inflation, and that we will have taken additional needed actions to this end in the next 6-12 months.

* * *

If asked as to what you will say specifically on energy, you might reply that this will depend, to some extent, on what the other heads of government say -- that you will focus on the decline in oil imports you expect to achieve in the next 6-12 months, rather than the means of getting there.

Henry Owen

C
L
I
N
C
H

R
I
V
E
R

TALKING POINTS ON CRBR FOR LEADERSHIP BREAKFAST

- o Wednesday or Thursday of this week when the Department of Energy authorization bill is on the floor, the House will vote on the Flowers amendment dealing with the Clinch River Breeder Reactor (CRBR).
- o The Administration has worked closely with Chairman Teague and with Congressman Flowers, and other members of the Science and Technology Committee to put our breeder program on a sound strong, healthy footing without incurring the unjustifiable waste which the CRBR would entail.
- o The Flowers amendment, which I support, accomplishes that goal by directing DOE to complete a conceptual design study for a larger, advanced breeder facility. This study will be submitted, along with Presidential recommendations, to the Congress in March 1981. It will give our base breeder R & D program a sound focus and produce an optimal breeder design using the best technology to meet our energy, economic, and non-proliferation goals. When this study is complete, both the President and the Congress will have a time basis on which to decide whether to move to construction of a breeder facility.
- o I believe that it is time to put an end to this debate on the CRBR and to move our nuclear program forward. The Flowers amendment will accomplish this goal in a way which keeps our breeder option open without wasting the taxpayers' dollars. I urge you to give it your full support.

11:00 AM

THE WHITE HOUSE

WASHINGTON

MEETING WITH SENATOR DICK CLARK

Tuesday, July 11, 1978

11:00 a.m.

The Oval Office

From: Stu Eizenstat *Stu*
Frank Moore

I. PURPOSE

Senator Clark requested this meeting to discuss the political implications of the recent Administration action to increase meat imports.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: Senator Clark is quite concerned over his recent showing in Iowa polls where his approval rating has fallen from over 70% last year to around 53% recently. Although the Senator held a comfortable 55-26% edge over his Republican challenger (Roger Jepsen) when they were last matched in a state-wide poll, that was before Mr. Jepsen won the Republican primary. The Senator will probably seek some indication of your concern and interest in the health of the livestock economy and your commitment to actions that will assure its continued recovery.

As you know, cattle prices, both cash and futures, have fallen off sharply since we announced the increased imports. It was apparent at the time we made our import decision that the market required an adjustment, although the magnitude and timing was difficult to predict. The farm community has been extremely vocal in its criticism of this decision and consumer interests have given us little support. Cattle prices have begun to rebound over the past week to 10 days. A review of recent market price trends is attached at Tab A.

B. Participants: Senator Dick Clark
The Vice President
Secretary Bob Bergland
Frank Moore
Stu Eizenstat
Lynn Daft

C. Press Plan: White House photographer.

III. TALKING POINTS

1. You might want to briefly review the major reasons we took this action:
 - o Recognition that the action would have comparatively little price effect for either consumers or producers but that it was one of the few actions that could be taken to moderate the very rapid rise in retail food prices. It was an important action in building our overall anti-inflation psychology.
 - o A fear that without some attention to increasing prices, consumer resistance could occur resulting in a significant drop in per capita beef consumption. This occurred in 1973, and required several years for consumers to return to their earlier consumption patterns.
 - o Forecasts of a very healthy livestock economy for at least the next 2-3 years, as the rebuilding phase of the cattle cycle gets underway.
 - o The consistency between this action and the countercyclical formula being proposed by the livestock interests.
 - o A desire to avoid suspending quotas entirely, although there was advice to do so from several quarters.
2. In response to the Senator's request for an indication of Administration concern, you could respond in a variety of ways, including:
 - o Authorizing Senator Clark to express your personal concern over the economic well being of the livestock sector and your commitment to furthering its recovery.
 - o Agree to meet with industry leaders as a demonstration of your personal concern and interest. This would help allay fears of further government actions, including use of price controls.

- o Administration willingness to devise a counter-cyclical formula that would even out meat imports relative to the domestic supply situation, without the restrictions imposed on the flexibility of the Executive Branch by the Bentsen bill
 - o Request an investigation of recent market behavior to evaluate (a) its competitiveness and (b) the adequacy of market information.
3. For your information, the Vice President will be visiting Kansas this Friday and is considering the possibility of a meeting with livestock producers.
4. You should inform Senator Clark that Waterloo, Iowa has received a HUD action grant of \$3.3 million to help revitalize the downtown area. This will be the first notification of any of the members of the Iowa delegation.

Recommendation

There is a clear need to reassure cattle producers that the Administration understands their industry and that we are sympathetic to their economic problems. I therefore recommend that you agree to meet with industry representatives at an early date.

THE WHITE HOUSE

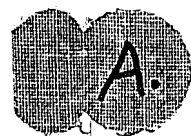
WASHINGTON

Senator Dick Clark (D-Iowa)

Committees: Committee on Foreign Relations (5)
Subcommittees: Foreign Economic Policy
Foreign Assistance

Committee on Rules and Administration

Wife: Julie



3488

THE WHITE HOUSE
WASHINGTON

July 11, 1978

Jim McIntyre
Frank Moore

The attached was returned in the President's outbox today and is forwarded to you for your information. The signed original has been given to Bob Linder for appropriate handling.

Rick Hutcheson

cc: Bob Linder



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUL 7 1978

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr. *JTM*
SUBJECT: Amendment to Reorganization Plan No. 2

Attached is a suggested amendment to the Civil Service Reform Reorganization Plan (No. 2 of 1978). The amendment would require the new Director of the Office of Personnel Management to provide to the public, where appropriate, a reasonable opportunity to comment and submit written views on the implementation and interpretation of Civil Service rules and regulations issued by the President and the Office.

The amendment seeks to lessen concern of some Members of Congress resulting from the shift from a bipartisan Civil Service Commission to a single Director of the Office of Personnel Management. The members are concerned that less openness in government might result from decisions being made by a single Director, rather than by a public board meeting under the Sunshine Act. This amendment is supported by Congressman Horton and is not opposed by Chairman Brooks nor by Chairman Ribicoff.

We recommend you sign and transmit this amendment prior to the expiration of the 30 day amendment period on July 11, 1978.

AMENDMENT TO REORGANIZATION PLAN NO. 2 OF 1978

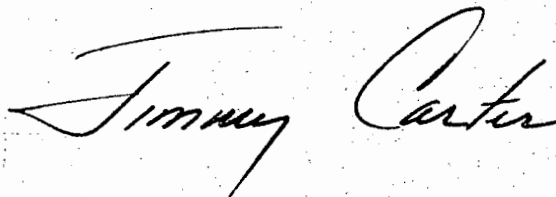
Prepared by the President and transmitted to the Senate and the House of Representatives in Congress assembled July 11, 1978, pursuant to the provisions of Chapter 9 of Title 5 of the United States Code.

Reorganization Plan No. 2 of 1978, which was transmitted to the Senate and the House of Representatives in Congress assembled on May 23, 1978, is hereby amended by deleting the present Section 104(c) and substituting therefor a new Section 104(c) as follows:

"(c) Executing, administering and enforcing the Civil Service rules and regulations of the President and the Office and the statutes governing the same, and other activities of the Office including retirement and classification activities except to the extent such functions remain vested in the Merit Systems Protection Board pursuant to Section 202 of this Plan, or are transferred to the Special Counsel pursuant to Section 204 of this Plan. The Director shall provide the public, where appropriate, a reasonable opportunity to comment and submit written views on the implementation and interpretation of such rules and regulations;"

TO THE CONGRESS OF THE UNITED STATES:

I herewith transmit an amendment to Reorganization Plan No. 2 of 1978, which I transmitted to you on May 23, 1978. Except as specifically amended hereby, Reorganization Plan No. 2 remains unmodified.

A handwritten signature in cursive script, reading "Jimmy Carter". The signature is written in dark ink and is positioned to the right of the typed name.

THE WHITE HOUSE,

1:15 PM

THE WHITE HOUSE

WASHINGTON

July 10, 1978

MEETING WITH MAURICE DANTIN (SENATE CANDIDATE, MISSISSIPPI)

Tuesday, July 11, 1978

1:15 p.m. (5 minutes)

The Oval Office

FROM: FRANK MOORE *F.M. / BR*

I. PURPOSE

To have the candidate meet the President and take a photo for use in campaign materials.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

- A. Background: Maurice Dantin won the June 27 runoff for the Democratic Senate nomination in Mississippi by earning 65% of the vote against Governor Clifford Finch. The controversial populist Governor had begun the Senate race this spring as the heavy favorite, but he unexpectedly ran second to Dantin in a field of seven candidates in the June 6 primary.

Finch was hurt in both the primary and the runoff by a low turnout among blacks and poor whites, the source of his traditional support. In the primary his vote-getting appeal was limited to rural northern Mississippi, and in the runoff he carried only six small counties there. Dantin rolled up large margins in south Mississippi, his native area, and did surprisingly well in the Delta region, where the black vote was expected to help Finch. Dantin had the backing of the state AFL-CIO and Eastland's supporters.

Dantin will have a very tough race in November against the Republican nominee, Congressman Thad Cochran. Cochran is young, handsome, articulate and comes across well on television. The Republicans are eager to cement their recent gains in this state by electing a Republican Senator for the first time in a century. The black vote, which constitutes a third of the electorate, will be a key element.

Both Charles Evers and Henry Kirksey have filed as independents. Unlike Finch and former Governor William Waller,

Dantin has not been close to blacks statewide and will need their support in November.

Dantin is a 45 year-old lawyer and former Columbia, Miss. District Attorney. He is a marine reservist who runs marathon races. He combined a handshaking, person-to-person campaign with a sophisticated television advertising blitz.

There has been a notable absence of issues in the campaign thus far. As might be expected in Mississippi, all of the candidates have been in general agreement on the conservative side of such issues as national defense and federal spending. Unlike other candidates, though, Dantin did not come out against the Panama Canal treaties.

B. Participants: Maurice Dantin

C. Press Plan: White House photographer

III. TALKING POINTS

A. Discuss the problems of the black vote in Mississippi and what we can do to help.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 11, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze *CLS*
Subject: Retail Sales in June

The Census Bureau released this afternoon its preliminary estimate of retail sales in June. The news is neither good nor bad.

Total retail sales in current dollars were about unchanged in June from a May level that was revised upward slightly. Adjusted for inflation, the volume of sales declined slightly last month. The only major categories of sales that showed a significant increase in dollar volume were department store sales, which rose by 2 percent, and restaurant sales, which rose 1-1/2 percent.

Taking a somewhat longer-run point of view, unit sales of autos have been very strong in the second quarter -- stronger than we had expected. There are some analysts who believe that consumers are expecting large auto price increases in the fall, so that good sales now are "borrowing from the future." We have no evidence to confirm this judgment. Apart from autos, retail sales in the second quarter have rebounded a bit less strongly than we had expected, but they are holding up reasonably well. Relative to a year ago, these sales are up about 10-1/2 percent, or about 4 percent in real terms. That is almost as large as the estimated increase in real GNP over the four quarters.

3:00 p.m.

MR. PRESIDENT:

Attached are the statistics you requested, which I asked Charlie and Henry Owen to develop. I also include an "oil saving" figure you may find useful.

In capsule form the pertinent points are:

1. Trade Deficit (\$ Billion)

	<u>1977</u>	<u>1978</u>	<u>Change</u>
<u>Imports</u>	<u>144.3</u>	<u>169.7</u>	<u>+25.4</u>
Petroleum	44.9	41.2	- 3.7
Other	99.3	128.5	+29.2
-manufacturers	71.5	97.6	+26.1

As shown on page 3 of Charlie's memo, oil imports are falling from the 1977 level of 8.7 million barrels per day to an annualized 7.9 million per day based on the first 5 months of 1978.

2. If the first four parts of the energy bill pass intact as agreed to by the House-Senate Conference we would save 1.8 million barrels of oil per day in imports, when fully effective. If we add the residential and business tax credits for conservation, which have been agreed to in principle by the tax conferees, the total is 2.3 million barrels of oil per day in imports. We suggest you use this figure.

3. Henry Owen's page is succinct and does not need to be further summarized.

Stu

Stu Eizenstat

11 Jul 78

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 11, 1978

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze ^{CLS}

Subject: Trade Balance Figures

The U.S. merchandise trade balance changed as follows over the last three-and-a-half years.

1975	\$+9.0	billion
1976	-9.4	billion
1977	-31.1	billion
1978 1st qtr.	-44.9	billion (annual rate)
Apr-May	-34.5	billion (annual rate)

Through 1977, increasing oil imports were the major, but not the only element, increasing our deficit. Over the past year, oil imports have fallen. Manufactured imports have grown very sharply, while manufactured exports have risen very little.

Between the first five months of 1977 and the first five months of 1978 the U.S. trade deficit worsened by \$16.7 billion at an annual rate -- from -\$24.1 to -\$40.7 billion. Oil imports actually fell. Manufactured exports rose very little -- by \$6.8 billion or 9 percent. But manufactured imports rose very sharply, by \$26.1 billion or 37 percent.

First five months (annual rate)

	<u>1977</u>	<u>1978</u>	<u>Change</u>
<u>Total trade deficit</u>	-\$24.1	-\$40.7	-\$16.7
<u>Exports</u>	<u>120.1</u>	<u>129.0</u>	<u>+8.9</u>
Agriculture	25.5	28.6	+3.1
Other	94.6	100.5	+5.9
- manufacturers	78.8	85.6	+6.8
<u>Imports</u>	<u>144.3</u>	<u>169.7</u>	<u>+25.4</u>
Petroleum	44.9	41.2	-3.7
Other	99.3	128.5	+29.2
- manufacturers	71.5	97.6	+26.1

Manufactured Imports

Faster growth in the United States than in our major trading partners continues to be a fundamental explanation for the rapid relative growth of U.S. manufactured imports in comparison with the growth of U.S. exports. Dollar depreciation should act to reduce the U.S. import value and expand U.S. export volume, but only over time. The initial effect (often called the "J curve" effect) is to increase the number of dollars spent on a relatively constant volume of imports, and thus to temporarily worsen the trade deficit.

Some specific commodity import figures (percent change during first five months of 1978 over comparable period last year):

Autos	-up 33 percent
Capital goods (excluding autos)	-up 44 percent
Semi-finished iron & steel products	-up 63 percent
Intermediate iron & steel products	-up 39 percent
Advanced iron & steel products	-up 12 percent
Electrical machinery & parts	-up 29 percent
Non-electrical machinery	-up 48 percent
Consumer goods (excluding food & autos)	-up 27 percent
Durables	-up 18 percent
Non-durables	-up 38 percent
Textiles	-up 41 percent

The five month figures for iron and steel imports may be misleading because of the surge of imports in anticipation of Treasury Department enforcement of the trigger price mechanism. In May, the first month of full operation of the mechanism, the value of steel imports fell by 41 percent. Auto imports also fell sharply in May after surging during the first four months.

Manufactured exports did rise sharply in April and May, the first sizeable increase in 18 months.

Oil Imports

Oil imports after rising sharply through 1977, fell in the first five months of 1978.

Oil imports
(million barrels
a day)

1972	4.7
1973	6.3
1974	6.1
1975	6.1
1976	7.3
1977	8.7
1978, first 5 months	7.9 (preliminary CEA estimate)

Availability of Alaskan oil, stock drawdown, and energy conservation were responsible for the decline.

THE WHITE HOUSE
WASHINGTON

7/11/78

rick--

please have kept in your
files....no return to strauss
or mcintyre unless needed to
convey message that president
has seen.

thanks--susan

*Path - file
no copies sent*

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

July 6, 1978

MEMORANDUM TO THE PRESIDENT

FROM: Ambassador Robert S. Strauss

On July 4 I met with Ambassador Togo and other representatives of the Japanese Government. On being advised that they would not be forthcoming on beef, citrus and certain other agricultural products, I took an exceedingly firm line. I was very clear on what I thought of the future of this market for Japanese imports with Congressional protectionist attitudes hardening daily. They were also advised that neither you nor I could hold off the Congress much longer. I also expressed my extreme displeasure over their failure to do better in the industrial sector.

On the same day, I received information with respect to the negotiating mandate granted the EC negotiators by their Ministers. If they give everything under their mandate, there would be insufficient agriculture access on tobacco, grain, citrus and so forth. We were also advised by the European Community that the Ministers would not meet to even consider improved authority prior to September 30. They are also too negative on export subsidies, among other things.

Accordingly, yesterday after talking with Stu and Jody, I went public with the fact that we would not have a complete trade package in time for the Bonn Summit. In my judgment, the firmness of our negotiation position was well received by domestic agricultural and industrial interests. Additionally, you will leave for Bonn a week from now with my having failed to deliver a trade package for the Summit -- not you having failed to return with one. I am leaving tomorrow for Geneva and will furnish Henry Owen with last minute details so that he may adequately brief you on the way over. I will go from Geneva and be in Bonn on Friday.

Mr. President, I discussed with Jim McIntyre again this morning a "hiring freeze". I hope you will consider imposing one, without notice, and before it begins to be speculated in the press. In my judgment, it will be exceedingly well received in this country and also gives you one more additional anti-inflation move having been made when you arrive at the Summit.

*Bob -
You did well -
your best -
I agree with
you & Jim re
freeze -
Susan
file
J*

R.S.S.

STAFF COMMENTS

STAFF COMMENTS:

HENRY OWEN thinks that Strauss handled the trade issue well because it "will put the heat on the other countries to come through with pre-Summit concessions. If they don't, it will put us in a good position to demand that the Summit agree on a tough directive regarding future trade negotiations."

Owen also agrees with Strauss that a hiring freeze would enhance the credibility of your anti-inflation posture at the Summit. But Owen is not sure that it is needed because, "if you describe the FY 1980 budget you have in mind, your serious intent will be evident in any event."

STU EIZENSTAT also thinks that a hiring freeze would help in the anti-inflation fight, with an exception for particular necessities. However, he feels that any announcement should await the completion of the appropriations cycle; (McIntyre agrees). Stu recommends that you direct, on a very confidential basis, McIntyre to work out in the next 30 days the detail of such a plan. Stu adds, "this must be kept absolutely quiet to have any impact."

CONGRESSIONAL LIAISON has no comment.

JIM MCINTYRE'S comments are attached.

JIM MCINTYRE'S COMMENT



ADMINISTRATIVELY CONFIDENTIAL
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MEMORANDUM FOR: THE PRESIDENT

FROM:

Jim McIntyre

A handwritten signature in dark ink, appearing to read "Jim", is written over the printed name "Jim McIntyre".

Bob Strauss is asking you to impose an immediate hiring freeze. I concur that a freeze on employee hiring would be helpful in the way Bob suggests. But I am concerned about timing.

In parts of three appropriations bills, the Congress is appropriating a specific amount for personnel. If enacted, these provisions will require you to report a rescission if any action is taken to hold employment below the level Congress specifies. For programs covered by these provisions, the Congress could overturn a freeze by waiting 45 days of the session.

In our judgment, if you now freeze hiring, the Congress is likely to add more of these provisions to appropriations bills. We think it best to wait until after the appropriations bills have gone through both Houses.

We take some risk in waiting, however. If it becomes common knowledge that a freeze is planned, then it will become ineffective because hiring will be increased in anticipation.

On balance, we think you should impose a freeze but should wait until August 31. We recommend that the freeze limit hiring to 3 of 4 vacancies for a period of ninety days. (This is the same kind of hiring freeze that you established in March 1977. That action was quite effective; permanent employment has still not returned to the levels existing before that freeze.)

ADMINISTRATIVELY CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

Date: July 6, 1978

MEMORANDUM

FOR ACTION:

Stu Eizenstat *attached*
Zbig Brzezinski - *see memo*
Jim McIntyre - *attached*

FOR INFORMATION:

Vice President
Frank Moore *pc*
Charlie Schultze

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Strauss memo re Trade Package/Bonn Summit

**YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:**

TIME:

IMMEDIATE

DAY: TURNAROUND

DATE:

ACTION REQUESTED:

☒ Your comments

Other:

PLEASE CALL BY COB TODAY IF YOU WISH TO COMMENT.

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE

WASHINGTON

Date: July 6, 1978

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Zbig Brzezinski
Jim McIntyre

FOR INFORMATION:

Vice President
~~Frank~~ Moore
Charlie Schultze

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Strauss memo re Trade Package/Bonn Summit

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME:

IMMEDIATE

DAY:

TURNAROUND

DATE:

ACTION REQUESTED:

☒ Your comments

Other:

PLEASE CALL BY COB TODAY IF YOU WISH TO COMMENT.

STAFF RESPONSE:

☐ I concur.

Please note other comments below:

☒ No comment.

CL /s/ Francis

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

July 6, 1978

MEMORANDUM TO THE PRESIDENT

FROM: Ambassador Robert S. Strauss

RSS.

On July 4 I met with Ambassador Togo and other representatives of the Japanese Government. On being advised that they would not be forthcoming on beef, citrus and certain other agricultural products, I took an exceedingly firm line. I was very clear on what I thought of the future of this market for Japanese imports with Congressional protectionist attitudes hardening daily. They were also advised that neither you nor I could hold off the Congress much longer. I also expressed my extreme displeasure over their failure to do better in the industrial sector.

On the same day, I received information with respect to the negotiating mandate granted the EC negotiators by their Ministers. If they give everything under their mandate, there would be insufficient agriculture access on tobacco, grain, citrus and so forth. We were also advised by the European Community that the Ministers would not meet to even consider improved authority prior to September 30. They are also too negative on export subsidies, among other things.

Accordingly, yesterday after talking with Stu and Jody, I went public with the fact that we would not have a complete trade package in time for the Bonn Summit. In my judgment, the firmness of our negotiation position was well received by domestic agricultural and industrial interests. Additionally, you will leave for Bonn a week from now with my having failed to deliver a trade package for the Summit -- not you having failed to return with one. I am leaving tomorrow for Geneva and will furnish Henry Owen with last minute details so that he may adequately brief you on the way over. I will go from Geneva and be in Bonn on Friday.

Mr. President, I discussed with Jim McIntyre again this morning a "hiring freeze". I hope you will consider imposing one, without notice, and before it begins to be speculated in the press. In my judgment, it will be exceedingly well received in this country and also gives you one more additional anti-inflation move having been made when you arrive at the Summit.

~~CONFIDENTIAL~~

THE WHITE HOUSE

4097

WASHINGTON

~~CONFIDENTIAL~~ GDS

July 7, 1978

INFORMATION

MEMORANDUM FOR: THE PRESIDENT
FROM: HENRY OWEN *HO*
SUBJECT: Bob Strauss Memorandum

1. I think Bob handled the trade issue just right. This will put the heat on the other countries to come through with pre-Summit concessions. If they don't, it will put us in a good position to demand that the Summit agree on a tough directive regarding further trade negotiations. Bob will give me language for such a directive.

2. I'm sure Bob is right in believing that a hiring freeze would enhance the credibility of your anti-inflation posture at the Summit. But I'm not sure it's needed for this purpose: If you describe the FY 1980 budget you have in mind, your serious intent will be evident in any event.

~~CONFIDENTIAL~~ GDS

~~CONFIDENTIAL~~

Jay 9/25/90

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

July 6, 1978

MEMORANDUM TO THE PRESIDENT

FROM: Ambassador Robert S. Strauss

RS

On July 4 I met with Ambassador Togo and other representatives of the Japanese Government. On being advised that they would not be forthcoming on beef, citrus and certain other agricultural products, I took an exceedingly firm line. I was very clear on what I thought of the future of this market for Japanese imports with Congressional protectionist attitudes hardening daily. They were also advised that neither you nor I could hold off the Congress much longer. I also expressed my extreme displeasure over their failure to do better in the industrial sector.

On the same day, I received information with respect to the negotiating mandate granted the EC negotiators by their Ministers. If they give everything under their mandate, there would be insufficient agriculture access on tobacco, grain, citrus and so forth. We were also advised by the European Community that the Ministers would not meet to even consider improved authority prior to September 30. They are also too negative on export subsidies, among other things.

Accordingly, yesterday after talking with Stu and Jody, I went public with the fact that we would not have a complete trade package in time for the Bonn Summit. In my judgment, the firmness of our negotiation position was well received by domestic agricultural and industrial interests. Additionally, you will leave for Bonn a week from now with my having failed to deliver a trade package for the Summit -- not you having failed to return with one. I am leaving tomorrow for Geneva and will furnish Henry Owen with last minute details so that he may adequately brief you on the way over. I will go from Geneva and be in Bonn on Friday.

Mr. President, I discussed with Jim McIntyre again this morning a "hiring freeze". I hope you will consider imposing one, without notice, and before it begins to be speculated in the press. In my judgment, it will be exceedingly well received in this country and also gives you one more additional anti-inflation move having been made when you arrive at the Summit.

THE WHITE HOUSE

WASHINGTON

July 6, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT *Stu*

SUBJECT: Strauss Memo

I have talked with Jim McIntyre about Bob Strauss' suggestion for the announcement of a hiring freeze.

I do think this would be of help in the anti-inflation fight, and would, in general, favor it with an exception for particular necessities. However, Jim and I both feel that any announcement should await the completion of the appropriations cycle. Otherwise such a freeze will be an invitation to Congressional committees to put personnel floors in appropriations bills, as has been done already in the appropriation for the Department of Agriculture.

Thus, I would direct, on a very confidential basis, Jim to work out in the next 30 days the details of such a plan. This must be kept absolutely quiet to have any impact.